

39
FILED

JUL 6 1945

CHARLES ELMORE DOWNEY
CLERK

IN THE

Supreme Court of the United States

October Term 1944, No. 202

THE STANDARD REGISTER COMPANY,
Petitioner,

vs.

AMERICAN SALES BOOK CO., INC.,
Respondent.

PETITION OF THE STANDARD REGISTER COMPANY FOR A WRIT OF CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT, WITH BRIEF IN SUPPORT THEREOF.

SAMUEL E. DARBY, JR.,
Counsel for Petitioner.

W. B. TURNER,
MARSTON ALLEN,
Of Counsel.



INDEX

	PAGE
Summary and Short Statement of the Matter Involved	1
Questions Presented	10
Reasons Relied Upon for the Grant of a Writ of Cer- tiorari	10
Brief in Support of the Petition for Writ of Certiorari	13
Opinions of the Courts Below.....	13
Jurisdiction	13
Statement	14
Specification of Errors.....	14
Summary of Argument	14
POINT I—The Court of Appeals has extended the “improper use” doctrine far beyond the limits expressed or implied by the decisions of this Court which created and applied. Therefore, there is here presented an important question of federal law which has not been but should be passed upon by this Court.....	15
POINT II—The question presented is of great and far-reaching importance to the public as well as to all industry and commerce which, in any re- spect, is based upon or in any way affected by the ownership of patent rights.....	21
Conclusion	25

List of Cases

	PAGE
B. B. Chemical Co. v. Ellis, 314 U. S. 495	7, 8, 13
Carbice Corp. v. American Patents Development Corp., 283 U. S. 27	7, 8, 13, 15
Federal Trade Commission v. Gratz, 253 U. S. 421	6, 7, 19, 20
Federal Trade Commission v. Sinclair Refining Co., 261 U. S. 463	22, 24
Leitch Manufacturing Co. v. Barber Co., 302 U. S. 458	7, 8, 13
Mercoid Corp. v. Mid-Continent Investment Co., 320 U. S. 661	7, 8, 13
Morton Salt Co. v. G. S. Suppiger, 314 U. S. 488	7, 8, 13
Motion Picture Patents Co. v. Universal Film Co., 243 U. S. 502	8
United States v. Colgate & Co., 250 U. S. 300	19

IN THE
Supreme Court of the United States
October Term, 1944, No.

THE STANDARD REGISTER COMPANY,
Petitioner,
vs.

AMERICAN SALES BOOK CO., INC.,
Respondent.

PETITION OF THE STANDARD REGISTER COMPANY FOR A WRIT OF CERTIORARI TO THE CIRCUIT COURT OF APPEALS FOR THE SECOND CIRCUIT, WITH BRIEF IN SUPPORT THEREOF.

To the Honorable, The Chief Justice and Associate Justices of the Supreme Court of the United States:

Your Petitioner, The Standard Register Company, respectfully prays that a writ of certiorari issue to the Circuit Court of Appeals for the Second Circuit, to review the judgment of that Court entered herein on April 6, 1945.

A transcript of the record of the case, including the proceedings in said Circuit Court of Appeals, is supplied herewith in accordance with the rules of this Court.

Summary and Short Statement of the Matter Involved.

1. Petitioner, The Standard Register Company, is in the business of designing and creating specialized record keeping business systems and of printing unpatented multiple-

copy strip stationery called "continuous business forms" used in such systems. These forms are rendered salable because they are custom-designed and printed with precision accuracy according to the individual record-keeping needs of each customer. They are extensively used with business machines such as tabulators, accounting machines, teletypewriters, etc. The merits of the sale of each system depend largely upon the ability of the salesman to meet more adequately than Petitioner's competitors the special record-keeping requirements of each customer in form design.

2. In order to properly align the multiple copies of the continuous business forms of Petitioner and to positively feed them through the business machines, as well as to maintain proper alignment while feeding them through such machines, small holes are punched in the vertical margins of the forms, at regular intervals to be engaged by a so-called pin feeding device with which the business machines normally are not equipped.

3. Petitioner, through its inventive and research personnel, devised an ingenious, efficient and effective feeding device scientifically designed for feeding the forms of its manufacture through the various business machines to which its feeding device could be attached; and petitioner was granted patents for the various patentable features of its said feeding device.

4. The ordinary business machine is equipped to feed cut forms, envelopes, letterheads, invoices, checks, etc. by means of a friction feed platen. When equipped with Petitioner's feeding device any single business machine may perform the dual function of feeding both continuous marginally punched stationery manufactured by Petitioner and cut forms, envelopes, letterheads, invoices, checks, etc. (R.

13) which are produced by any job printer but not by Petitioner (R. 6, 37).

5. For a number of very cogent business reasons Petitioner did not sell its feeding devices to its customers for business forms. In the first place, the feeding device was an expensive product (R. 18), of precision manufacture, and its cost was so great it could hardly be expected that customers for the relatively very much cheaper stationery would be willing to pay even the manufacturing cost of the feeding device merely to use Petitioner's business forms (R. 18). Especially would this be the case where, as frequently happened, the manufacturers of the business machines from time to time changed the structures of those machines in such a manner as to require a modification in the structural arrangement of the feeding device to permit it to be attached to the machines, thereby necessitating, if the feeding device had been sold, the user thereof to acquire a new feeding device (R. 20). Additionally, the continued efficiency and effectiveness of the feeding device necessitated servicing, lubrication, adjustment, etc., which could best be given by one thoroughly familiar with the mechanics of its internal structure and with its mechanical operation. The feeding device was designed to meet the specific physical characteristics of Petitioner's paper (R. 18). If the device was sold to a customer of Petitioner at its high cost, there would be sales resistance met (R. 19); if the device could be made available without the necessity of the user paying its high cost, there would be a much wider distribution of Petitioner's products. In this same connection, if the customer wanted to use the positive feed device and continuous forms of any of the Petitioner's many competitors, the customer would be subjected to the necessity of purchasing a feed device from the competing concern as well (R. 17, 19). By making the feeding device

readily available through lease, the Petitioner has encouraged and promoted competition since at little or no expense the user of Petitioner's feeding device may either discard the same or also acquire for simultaneous use the feeding devices and punched continuous forms of competitors (R. 17, 18, 19). It has frequently happened that customers acquire continuous forms not only from Petitioner for use over Petitioner's feeding device but the same customers acquire forms from other suppliers also for use over the feeding devices of the other suppliers. In this way Petitioner is able to give a wider distribution of its products because when its customers no longer demand the Petitioner's device for feeding Petitioner's form, the Petitioner may loan the device to others who do require it for the feeding of Petitioner's forms. Such an arrangement does not preclude users from also using simultaneously the feeding devices and forms of Petitioner's competitors (R. 17). Furthermore, as opposed to making Petitioner's feeding device available to its customers by the sale thereof, it is apparent that by Petitioner retaining ownership of its feeding device and merely loaning it to its customers for its business forms, Petitioner could itself absorb the cost of the feeding device over a period of years, and be in a position to service and maintain the feeding device in constant efficient and effective operating condition.

6. Therefore, Petitioner *loaned* its feeding device without charge to customers for its paper forms. In order to insure the return of Petitioner's feeding device when the customer no longer needs or desires it for feeding Petitioner's continuous forms alternatively with cut forms made by any manufacturer, a standard form of loan agreement is used. This standard agreement expressly granted to the loanee what, in any event, was impliedly conveyed as a matter of law, namely, a license under all of Petitioner's

patents affecting the use of the loaned device. The loan agreement is reproduced in full at pages 38 and 39 of the Record, but the material parts thereof are as follows:

"The Standard Register Company, of Dayton Ohio, later referred to as 'Owner', in order to facilitate the use of marginally punched manifolding material purchased from it by _____, later referred to as 'User', in office mechanical devices, does hereby loan to and license said User to use the property described on the reverse side hereof in Schedule Two, which said property is patented under one or more United States and Canadian Letters Patent listed on the reverse side hereof in Schedule One.

• • • • •

This license shall continue only so long as the User purchases from the Owner or its authorized representatives, at the prevailing quotations made from time to time by Owner to others in similar position as User, marginally punched stationery or continuous form material for use on the devices licensed hereby in lots totaling minimum gross price of Fifty (\$50.00) Dollars per order and not less than Fifty (\$50.00) Dollars per year for each feeding device licensed hereunder and only so long as no continuous form material * or marginally punched forms obtained elsewhere than from Owner and/or its authorized representatives is used by User with the licensed property. *But nothing herein shall be deemed to restrict the User in the purchase of continuous manifolding form material from others than Owner, or to limit the User in the purchase, lease or license of feed aligning devices of others excepting that no license is to be implied hereby under the pat-*

* No reference is made to the cut forms made and sold for use over any feeding device including Petitioner's registrator platen in competition with Petitioner's continuous forms. Such use of cut forms by Petitioner's customers will not terminate the license agreement.

ents referred to in Schedule One as to such products of others.

The User may terminate this license agreement at any time upon ten days written notice, addressed to the Owner at Dayton, Ohio, but such termination shall not take effect until receipt by the Owner at Dayton, Ohio, of the licensed property." (Emphasis ours.)

No fixed period of use is specified in the loan of these patented registrator platens (R. 67, Ex. 16).

7. Petitioner never makes or sells marginally punched stationery for use over Respondent's feeding device (R. 15, 21, 22), and conversely the Respondent never makes marginally punched stationery for use over Petitioner's feeding device (R. 17, 22).

There are approximately fourteen companies engaged in the designing and manufacture of continuous forms of one kind or another, including the parties to this litigation (R. 35). These companies comprise the continuous form industry and are engaged in keen competition with one another. Substantially all of these companies make positive feed forms punched with feed holes and make their own feeding devices (R. 17, 36). It is possible (R. 36), but not practiced (R. 17), for one competitor to furnish continuous forms for use over another's feeding device.

8. The loan agreement is used merely in an incidental manner as an inducement to the customer and consequently an aid to the business of the Petitioner, and is not obnoxious to the rule of public policy as determined in the commercial contracts discussed and passed upon by this Court in *Federal Trade Commission v. Gratz*, 253 U. S. 421.

9. Respondent, American Sales Book Co., Inc., manufactured feeding devices in infringement of Petitioner's patents, whereupon, and because thereof, Petitioner insti-

tuted several patent infringement suits against Respondent in the United States District Court for the Western District of New York.

10. In each of said suits Respondent interposed the defense that Petitioner was improperly using its patents, as evidenced solely by Petitioner's loan agreement, and therefore, under the "improper use" doctrine,* that Petitioner was barred from enforcing its patents in those suits.

11. The rule of public policy applicable to this case is analogous to that announced by the *Gratz* case, *supra*. The "improper use" doctrine of the *Carbice* case is not applicable. This for the reason that the customer has an option in his sole discretion and business judgment either to

- (a) obtain and use exclusively competitors' feeding devices and continuous forms, and to cease using the Petitioner's feeding device and continuous form; or
- (b) obtain competitors' feeding devices and continuous forms to satisfy any part or proportion of his requirements for continuous forms, using Petitioner's feeding device and continuous forms in part and any competitor's feeding device and continuous forms in part.

This discretionary right may be exercised at any time by the customer after he makes Petitioner's loan agreement by terminating that loan agreement either by attempting to use continuous forms manufactured by competitors over the Petitioner's feeding device or by giving Petitioner ten days written notice of intention to terminate. Such discretionary

* *Carbice Corp. v. American Patents Development Corp.*, 283 U. S. 27; *Leitch Manufacturing Co. v. Barber Co.*, 302 U. S. 458; *Morton Salt Co. v. G. S. Suppiger*, 314 U. S. 488; *B. B. Chemical Co. v. Ellis*, 314 U. S. 495; *Mercoird Corp. v. Mid-Continent Investment Co.*, 320 U. S. 661.

terms of Petitioner's loan agreement subjects the customer to no penalty inasmuch as he pays no rental charge for Petitioner's feeding device. This discretionary right insures at all times open and free competition. The "improper use" doctrine, since its origin in the *Carbice* case (or, as some assert, in the case of *Motion Picture Patents Co. v. Universal Film Co.*, 243 U. S. 502), and in each of the cases in which it was subsequently applied by this Court (the *Leitch*, *Morton Salt*, *B. B. Chemical Co.* and *Mercoide* cases), was defined by this Court, in varying language, to constitute the attempt by a patent owner to use his patent as the effective means to create or enforce a monopoly in or restrain competition with the sale of an unpatented article of commerce which the patent did not cover. For example, in the *Carbice* case, this Court said (283 U. S. at p. 33):

"Relief is denied because the Dry Ice Corporation is attempting, without sanction of law, to employ a patent to secure a limited monopoly of unpatented material used in applying the invention." (Emphasis ours.)

(See, also, the *Leitch* case, 302 U. S. 458, at page 463); and in the *Morton Salt* case (314 U. S. 488, at p. 490) this Court said:

"The question we must decide is * * * whether a court of equity will lend its aid to protect the patent monopoly when respondent is using it as the effective means of restraining competition with its sale of an unpatented article." (Emphasis ours.)

(See, also, the *B. B. Chemical* case, 314 U. S. 495, at pages 497-498, and the *Mercoide* case, 320 U. S. 661, at p. 664.)

12. In the present case Petitioner has not been charged (nor could it have been charged) by Respondent with the attempt, by means of its loan agreements, to use its patents

for the feeding device *to create a monopoly in its unpatented business forms*, or with having used its patents as *the effective means of restraining competition with its sale of unpatented business forms*. To the contrary, Petitioner is charged solely with "using the monopoly of the patents here in suit for the purpose of *aiding Plaintiff's (petitioner's) business in such paper forms*", as will be seen by reading the entire defense raised by Respondent's answer (R. 2) and upon which defense, as so pleaded, the trial in this case was had.

13. It will thus be seen that the present case involves an extension of the "improper use" doctrine far beyond what was contemplated or intended when it was announced, as well as far beyond any possible application thereof under the definition uniformly given it by this Court. The serious and far reaching public, commercial and industrial consequences of extending the doctrine so as to be applicable to any use by a patent owner "*to aid its business*" in unpatented commodities, are believed to be obvious. For example, the mere statement of ownership of the patents for incandescent lamps, as a means of inducing purchaser confidence in the reliability of the source of advertised unpatented electric refrigerators, would thus become such "improper use" of the patents for the lamps as to prevent the subsequent enforcement of those patents against wilful infringers thereof. Under such circumstances the mention of ownership of the lamp patents obviously would be for the purpose of *aiding the business* of the patent owner in the sale of unpatented refrigerators.

14. Counsel for Petitioner and Respondent presented a joint motion, which was granted, for a separate and immediate trial on the issue raised by the sole defense of "improper use" as pleaded, and upon stipulation and order the several suits were consolidated into the present case

for the purpose of obtaining a prompt determination of that single issue.

15. The District Court (per Judge KNIGHT) sustained the defense and dismissed the complaint, and the Court of Appeals affirmed. This petition requests a review of the merits of the matter.

Questions Presented.

The questions presented for review by this Court if the present petition is granted, are:

1. Whether or not the doctrine of "improper use" of patents—heretofore uniformly stated by this Court to comprise a patent owner's attempt to use the patent as the effective means of creating or maintaining a monopoly in or of restraining competition with the patent owner in the sale of an unpatented article of commerce—is or should be applicable to a patent owner who has *not* used the patent in the manner condemned by the doctrine, but merely for the purpose of *aiding his business* in the sale of an unpatented commodity?

2. Under the facts of this case, is the Petitioner using his patents as the effective means of restraining competition in its sale of an unpatented article?

Reasons Relied Upon for the Grant of a Writ of Certiorari.

The discretionary power of this Court is invoked upon the following grounds:

1. Because the Court of Appeals for the Second Circuit has extended the "improper use" doctrine far beyond the limits expressed or implied by the decisions of this Court which created and applied it. Therefore, there is here pre-

sented an important question of federal law which has not been but should be passed upon by this Court.

2. Because the question presented is of great and far reaching importance to the public, as well as to all industry and commerce which, in any respect, is based upon or in any way affected by the ownership of patent rights.

WHEREFORE your petitioner respectfully prays that a writ of certiorari issue out of and under the seal of this Court, directed to the United States Court of Appeals for the Second Judicial Circuit, commanding said Court to certify and send to this Court, on a date to be designated, a full transcript of the record and all proceedings in the Court of Appeals had in this cause, to the end that this cause may be reviewed and determined by this Court as to the questions herein presented, and that the judgment of the Court of Appeals be reversed; and that petitioner may be granted such other and further relief as may seem proper.

Respectfully submitted,

SAMUEL E. DARBY, JR.,
Counsel for Petitioner.

W. B. TURNER,
MARSTON ALLEN,
Of Counsel.

Dated: New York, N. Y.
July 2, 1945.